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## FACTORS INFLUENCING STRATEGIC DECISION-MAKING PROCESS FOR THE OIL/GAS INDUSTRIES OF UAE- A STUDY

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### ABSTRACT

The Oil and Gas sector plays a significant role and has highly contributed to the current economic prosperity and for the exceptional economic and social development of the United Arab Emirates. The strategic decision-making process is referred to as the most important and complex of all the processes or functions in the Oil and Gas related industries of UAE. This study is exclusively focused on examining and analysing the critical factors that influence the strategic decision-making process in the industry. In order to understand and examine the research problem of the study, both primary and secondary data collections were undertaken. The primary data for the study was collected from senior managers of some of the UAE Oil and Gas production/exploration, distribution and refining companies (end users), EPC Contractors and FEED contractors operating in UAE. A number of internal, as well as external factors, were incorporated in the study observation to influence the Oil and Gas business of UAE. A total of 15 companies were chosen as random samples from the Universal population list of 55 major UAE Oil/Gas related End users, EPCs and FEED contractors. The samples had been analysed with the ANOVA to test the hypothesis of the study. The ANOVA analysis between the responses of participants were calculated to understand the impact of strategic decisions on international business management of UAE Oil & Gas End users, EPCs and FEED contractors operating in UAE. The study identifies major factors which influence the strategic decision making for the international business of UAE Oil/Gas operating companies.

**Key words:** UAE, EPCs, FEED, Oil, Gas,

### 1.0 INTRODUCTION

#### 1.1 Background of the research

The strategic decisions of a company are long-term, complex, inherently risky and highly unstructured. These strategic decisions have a huge impact on the organisation's future. These decisions also require a greater amount of organisational resources and should, therefore, consider the firm's environmental impact. According to Astley et al., (1982), the senior management of an organisation usually plays the central role in the process of strategic decision-making. The decisions made influence the direction, structure and administration of the

organisation. The process of strategic decision-making in an organisation is a highly complex task. The decisions taken by the top management have the tendency to affect the organisation, the stakeholders and the employees as a whole. The strategic decisions taken by the oil and gas sectors can adversely affect the industry with respect to fluctuations in oil prices and the overall impact on the environment. Thus, the process of strategic decision-making is influenced by multiple elements. However, the most influential factor in the decision-making process is the systematic or strategic process that is to be followed. The strategic decision-making process also includes the

selection of appropriate individuals to make decisions. The person responsible for making decisions strategically encounters a task of extreme ambiguity and complexity. According to Dutton and Duncan, (1987), the decisions made by an organisation in order to attain development and to stay ahead of the trends and events are the strategic issues that need to be taken care by the organisation. The strategic decisions undertaken have a huge impact on organisational strategies and these issues influencing the organisation can represent the opportunities or problems to the decision makers. It is also claimed that the process of strategic decision-making plays a significant role in an organisation, as it affects the ability of the organisation to attain its goals or objectives. Thus, it can be stated that the decisions made on strategic issues is regarded as the strategic decisions and hence deserves the consideration of strategic management (Dutton and Duncan, 1987).

The typical characteristics of strategic issues as stated by Pearce and Robinson (1994) are that the strategic issues need a large amount of resources from the firm; they most often impact the long-term prosperity of the firms; the strategic issues are oriented towards the future and have multifunctional consequences. They also need to consider the external environment of the firm as well as demand-side decisions from the top management. According to the United Arab Emirates Country Report (2014), the United Arab Emirates is stated to have many positive attributes in the overall economic development and infrastructure building, and the oil revenues especially are claimed to have contributed to its current excellent economic position and for the exceptional economic and social development. The UAE controls about 85 per cent of the oil output capacity and about 90 percent of the entire reserves. It also possesses almost 10 percent of the total reserves in the world which enables the oil and gas sector of the country to contribute the major part of income from the industry for the expansion of social services and for the economic growth in the UAE. Hence, it is of vital importance that the industry registers stable growth and prevents possible risks by proposing strategic measures in every phase of the organisation. This study emphasises on analysing the strategic decision-making process of the UAE Oil/Gas industry and the factors influencing it.

### **1.2 Problem Statement of the Study:**

One of the significant functions of the managerial job is the decision-making, thus, the decision-making is considered as the primary duty of the top managers in an organisation. It is important that the decisions made by the managers need to be strategically beneficial for the organisation. But, the knowledge regarding the strategic decision-making process is limited. The impact of the factors related to the process of strategic decision-making is quite unclear. Extensive work has been conducted in the past, focusing upon the factors affecting the process of strategic decision-making. However, many more studies are extensively required in the field of strategic decision-making with reference to the oil and gas industries of UAE, in order to derive definitive conclusions. This study explores the factors affecting strategic decision-making process with specific reference to the oil and gas business of the United Arab Emirates. The nature and significance of the factors have made the study unique and significant in nature and scope.

### **1.3 Objectives of the Study:**

To identify the major factors which influence the strategic decision-making process for the International Business of UAE Oil/Gas Operating end users, EPCs and FEED Contractors.

### **1.4 Research Questions:**

The research questions of the study are as follows:

- What are the major factors that influence the process of strategic decision-making in the UAE Oil and Gas Operating End users, EPCs and FEED contractors?
- What is the significance of the strategic decision-making process in UAE Oil/Gas sector companies?

## **2.0 LITERATURE REVIEW**

It is claimed by Nooraie (2012) that, the process of strategic decision-making is the most important and complex of all the processes or functions of the management in any type of organisation. It is also emphasised that the managers require having a complete understanding of the process of decision-making in order to practice it effectively. The study identifies the factors that affect the process of strategic decision-making and are classified into four major categories, depending upon the different stages and

processes in an organisation. Nooraie characterised the factors as,

- Decision Specific Characteristics
- External Environmental Characteristics
- Internal Organisational Characteristics
- Management Team's Characteristics

In addition, each of the above factors was also divided further. The major dimensions of the factor, 'Decision specific characteristics' that impact the process of strategic decision-making are stated to be:

- The Decision's Familiarity;
- Decision's Magnitude of Impact;
- Threats,
- Crisis and Opportunity;
- Risky Decisions;
- Decision's Complexity and Type of Decisions.

'Internal Organisational Characteristics' that influence the process of strategic decision-making include

- Organisational Structure and Power;
- Organisational Size;
- Organisational Performance and Organisational Slack.

Similarly, the dimensions of the external-environmental characteristics include

- Environmental Dynamism;
- Environmental Opportunity-and Threat
- Environmental Hostility;
- Environmental Heterogeneity
- Environmental Uncertainty.

The Top Management Team Characteristics include multiple dimensions such as Risk Propensity; Education and Experience; Consensus; Age; Cognitive Diversity; Cognitive Complexity; Cognitive Conflict and Affective Conflict and Need for Achievement.

The study by Bigliani (2013), explored the operational risks encountered by the oil and gas companies in today's regulatory environment and business environment. The operational risks encountered at the corporate level, their impact and efficient means to mitigate those risks were also analysed. It was inferred that the oil and gas companies operate in highly remote locations and function in harsher environmental conditions to extract hydrocarbons. The adoption of integrated operations or digital oilfield is observed to be one of the vital strategies to optimise production, improve the reservoir recoverability and reduce environment, health, economic and safety risks. In addition, strategic decision-making about the

projects that should be developed first is claimed to be highly necessary in order to make sure the company performs best. Further, the decisions on equipment resources such as, the best time for rig reservation; the best rate at a certain exact moment; the existence of threat like higher rental rates and the impacts of the threats on the planned revenues are stated to be mandatory for an efficient processing of the industry.

Stevens (2008) conducted a study on Kuwait Petroleum Corporation (KPC) in order to propose a better business processing strategy. It is emphasised that the process of decision-making is unpredictable, complex, cumbersome and extremely bureaucratic. The problems are diverse including growing political interference and encroachment of bureaucracy; growing management competence problems; severe lack of technical skills; slow decision-making process thus compounding a number of other factors impacting the company. Being faced with a number of problems, the senior management is focused on improving the decision-making process in addition to several other challenges. Thus, in order to make the situation better, the processes of decision-making and especially financial decisions are shown to have vital importance. But the political interference is claimed to have been a major constraint for the industry in the strategic decision-making process.

According to Bryan (2012), the oil and gas industry is distinctive and is subject to regulation from multiple angles and constant scrutiny. Further, it is also claimed to vary from the other industries, in the way they are appreciated by the financial community. The valuation of the oil and gas industry is considered to be similar to that of the non-oil field-related industries and the significant difference is observed to be the inherent commodity risk, reducing the value of the company, natural resources and future earnings. Thus, during the process of decision-making, such cost and resource related factors are stated to be taken into consideration. In addition to the external factors, the commodity prices, a highly competitive landscape and contract disputes also impact the oil and gas industries. Thus, the strategic decision-making processes of the oil and gas sector have to include all the external and internal factors influencing the industry.

### **3.0 RESEARCH METHODOLOGY**

The various methods and approaches adopted and implemented in the current study for data collection . Adopting appropriate methodologies represents a significant part of the overall research process. Following are the methods, techniques, designs and procedures of research adopted for the study.

The Research Paradigm forms the basic view of the research depending on the beliefs and perceptions of the researcher. It is generally of two types (1) Positivism and 2) Interpretivism. The interpretivism or hermeneutics research paradigm is adopted in this study as it enables conducting an extensive research. The Research Approach can be stated basically as the method using which the research is conducted. It is of 2 types in general, (1) Qualitative and 2) Quantitative. The qualitative research approach is adopted in this research as it demands a wider analysis of the problem identified in the study. The Research Design constitutes the strategy, plan or roadmap necessary to conduct the research. It is of four different types, (1) experimental research design, (2), case study research design (3) exploratory research design and (4) descriptive research design. The descriptive research design is adopted in the study as it enables a detailed analysis of the problem statement.

The Sampling Design can be stated as the method adopted to collect primary data from an open population. It is of 2 types in general, 1) Probability sampling and 2) Non- probability sampling. The non- probability sampling technique is adopted in the study as qualitative data analysis is to be performed. The Sampling Unit of the study includes the managers and senior managers of the UAE operating Oil and gas end users, EPCs and FEED contractors. The Sample size for the qualitative analysis represents a total of 15 UAE Oil/Gas operating companies, UAE Oil/Gas end users, EPCS and FEED contractors, respectively. The Sampling Plan for the study is the collection of data from the target respondents by conducting interviews, and by distributing qualitative open-ended questionnaires at their workplace. A total of 117 samples collected by interviewing as well as with the support of structured questionnaire extended to 15 UAE-based Oil/Gas operating companies out of the below listed 55 universal population. The data collected for the study is ensured for its validity and reliability and the ethical concerns of the research were strictly adopted throughout the process of research.

Table 1: Universal Population of Study - UAE Oil/Gas Operating End Users, EPCs and FEED contractor List.

1	ADCO
2	ADMA-OPCO
3	ZADCO
4	NDC
5	ESNAAD
6	IRSHAD
7	GASCO
8	ADGAS
9	AI Hosn Gas
10	TAKREER
11	FER TIL
12	BOROUGE
13	ELEXIAR
14	NGSCO
15	ADNOC DISTRIBUTION
16	BUNDUQ OIL
17	TOTALABK
18	IPIC
19	DANA GAS
20	DOLPHIN ENERGY
21	ENOC
22	CRESCENT PETROLEUM
23	JODCO
24	ADOC
25	PETROFAC
26	SAIPEM
27	LARSEN AND TOUBRO
28	BILFINGER
29	ENERFLEX
30	PUNJLLOYD
31	TECHNIP
32	GISCO
33	WORLEY PARSON
34	FOSTER WHEELER
35	MOTMCDONALD
36	TOPAZ

37	NPCC
38	CPECL
39	DODSAL
40	ALSA Engineering
41	CH2MHILL
42	FLUOR
43	MUSTANG ENGINEERING
44	JP KENNY
45	PENSPEN
46	GS ENGINEERING
47	TECHNICAS REUNIDAS
48	AMEC
49	JACOBS
50	JGC CORPORATION
51	CPECC
52	INTECSA INDUSTRIAL
53	CRESCENT PETROLEUM
54	MUBADALA PETROLEUM
55	JP KENNY

## 4.0 DISCUSSION

### 4.1 Proposition

This section of the study presents a detailed discussion and analysis on primary data. The primary data for the analysis was collected from 117 managers of Oil and Gas companies in the UAE by conducting interviews and the responses were obtained by distributing a qualitative questionnaire. The questionnaire focused on collecting the demographic profile of the respondents and analysing the factors influencing strategic decision-making processes in their organisation.

### 4.2 Opinion of managers regarding the strategic decision-making processes in their organisation.

From the analysis of the primary data collected from the interviews, it was observed that all the managers agreed that the strategic decision-making process is highly significant for the enhanced functioning of the oil and gas development sector. When asked how the strategic decision-making process plays a significant role in the Oil and Gas development sector in UAE, most of the study participants initially responded by saying that it is a highly complex task, and followed by saying that it

is the strategic decision-making process followed in their company that gives direction, structure and administration to the organisation. They also emphasised that the strategic decisions undertaken by the industry should be implemented while considering all the factors influencing it, in order to prevent the adverse effects upon the industry.

Next, the respondents were asked whether the strategic decision-making process in the organisation is affected by both the internal and external factors. All the respondents agreed that both the internal as well as the external factors affect the strategic decision-making process in the organisation. They added that, if not the internal issues, some external factors changed the outcome of the decision and vice versa. Hence, it is ensured that both internal, as well as external factors, influence the decisions taken by the organisation.

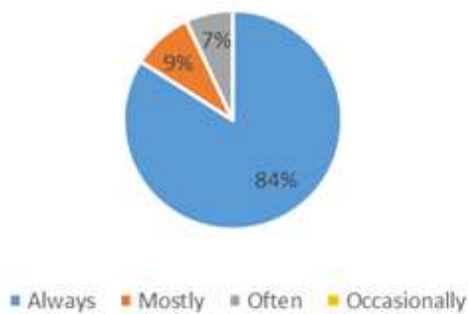
The managers were finally asked to state the strategies adopted by their organisation in order to overcome the issues caused by internal and external factors. The commonly adopted strategies by the industries which were stated by most of the managers were that their organisation adopts effective decision-making models before deciding up on issues. In addition, some also stated that, the available options are analysed and the best of them is chosen and that, before proceeding with something, it is assured if it is fine to go ahead or not. The financial and resource-based analysis, before proceeding to decision-making were also observed to be stated by some of the respondents.

### 4.3 Leadership Styles

The strategic capability affecting organisational performance around the world is leadership and businesses operating in the gas and oil industry are also subject to this rule. However, there are thousands of widely acknowledged leaders in the oil and gas industry, most of whom retire every three years. The problem is that there are no new leaders to fill the vacuum on such a massive level. This extensive departure of skilled workers and increasing dependency on younger and inexperienced personnel is also referred to as Big Crew Change, which has created a gap in leadership ability within the industry. Job cuts during times of recession in the 1970s and 1980s developed a void within the industry of a generation of petroleum engineers and geoscientists. Industry leaders are working hard to build a bridge to fill this gap. Consequently, in

challenging locations, committees and bodies such as the Gulf Cooperation Council assist countries inflicted by the limited supply of local talent and a lack of developed human resources in nationalised industries.

**Role of Leadership style for the Strategic Decision making process of UAE Oil/Gas Industries**



**Figure 1: Role of Leadership Style for the Strategic Decision-making**

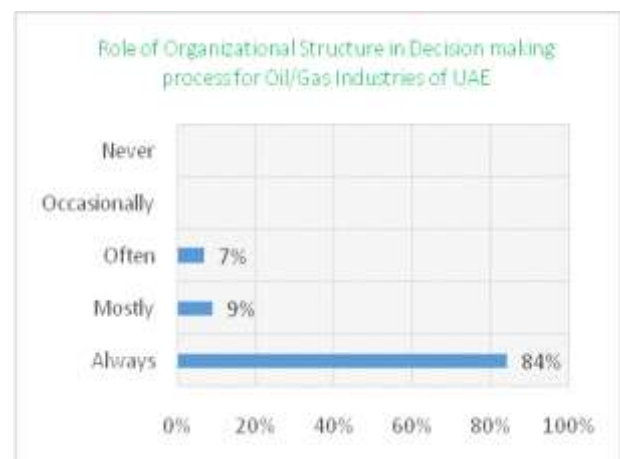
Moreover, organisations are taking a long-term vision in terms of recruitment of local skilled workers, but they would have to start with a strategy in order to build leadership development. One core challenge is recruiting enough talent for succession, but a more difficult challenge is preparing newly hired workers for roles of senior leadership within next 5-10 years. Every state has unique perks in terms of the development of leaders. For instance, one promising benefit for leadership development in UAE is that young Emiratis reflect a significant deal of national pride. According to a survey of Emirati high school students, which was conducted as one major aspect of research proved that major aspects of motivation were social responsibility and nationalism. Therefore, oil and gas companies can lure in and develop future leaders through realignment of employer messages that reflects on how local leadership would help oil and gas industry in UAE.

The development of leadership potential and capabilities thus represents a major area for improvement as it can greatly contribute towards the development and implementation of strategic decision-making in the various companies and corporations operating in the oil and gas sector in the UAE.

#### **4.4 Organisational Structure**

The critical role played by the strategic decision-making in the business success of the organisations operating in the oil and gas sector of

UEA has far-reaching strategic implications for the organisations involved. Strategic decision-making facilitates the development and critical evaluation of the overall internal and external business environment affecting the prospects of the companies in the oil and gas industry. In this connection, long-term strategic decision-making has a profound impact on the organisational structure, the level of hierarchies, the communication channels involved and the layers within the organisational structure. The centralized organisational structure in the majority of oil and gas exploration and development corporations in UAE means that most of the decision-making process resides with the top management and minimal involvement of the front-line and lower staff members.



**Figure 2: Role of Organisational Structure**

UAE became a member of OPEC in the 1960s but since the creation of union in 1971, the representation of UAE is limited at the organisation with Abu Dhabi acting as a critical producer. UAE is one of the sixth largest producers within OPEC and is considered to be assessing an equilibrium between price and production, which will satisfy consumers and producers alike (Stevens, 2012).

Oil has underpinned the development of UAE but there are still signs which suggest that natural gas will continue to play a critical role for Emirates during the course of the century. Not only does it possess extensive reserves of its own, but Emirates is also actively pursuing a development strategy by which the nation will prove to be a focal point from where the supply of gas would benefit the entire Gulf region.

**4.5 Organisational Culture**

Organisational culture plays a decisive role in the development and implementation of strategic decision-making initiatives at the organisational level in the oil and gas sector in the UAE. The culture in most of the companies operating in the oil and gas industry is based on multiple hierarchies, a top-down approach to organisational structures and an emphasis on following routines and control systems. Organisational culture, in this capacity, greatly influences the decision-making process at these companies. The decision-making is not widely shared by employees and the power of decision-making thus resides exclusively with the senior management.



Figure 3: Role of Organisational Culture

**4.6 Human Resources and Technology**

It is imperative to understand and assess the role of human resources in the development and implementation of strategic decision-making. As human resource managers become deeply involved with their organisational decision-making process, they are able to consolidate and integrate the organisational goals and objectives as supported by the strategic decision-making in their overall human resource policy frameworks and practices. Similarly, technological advancement, integration and innovation facilitates the development and execution of strategic decisions across the organisation. The use of information technology, database management and enterprise resource planning greatly contributes towards the organisational strategic decision-making process.

Role of Human Resources and Technology for the Strategic Decision process of UAE Oil/Gas Industries

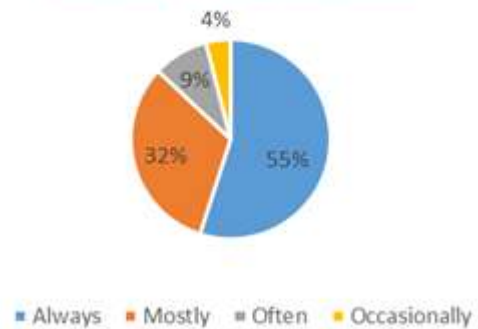


Figure 4: Role of Human Resources

**5.0 CONCLUSION**

This section presents the major findings inferred from the study. The study was focused on four major factors which influence the strategic decision-making process for the UAE Oil/Gas End-users, EPC Contractors and FEED Contractors. The observed major factors which are highly influential are Leadership style, organisational structure, organisation culture, and Human resource and Technology

Technology

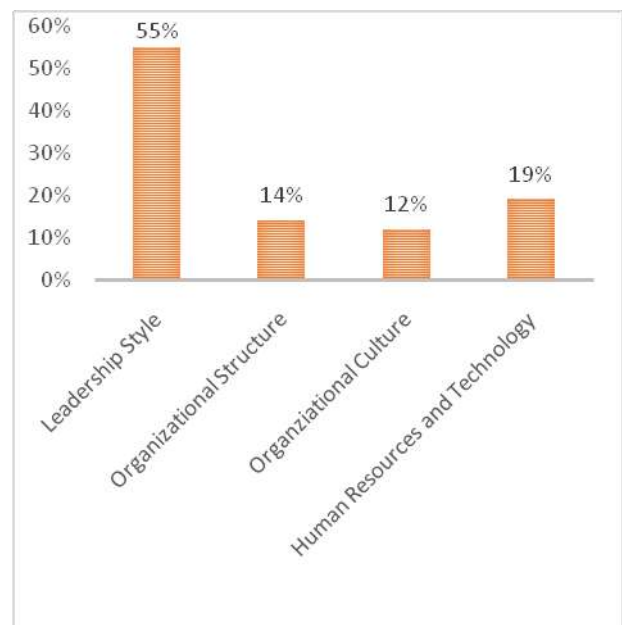


Figure 5: Major factors Influencing Strategic Decision-making process for UAE Oil/Gas industries

**Rajesh Mehrotra & Regilal Gopalan / FACTORS INFLUENCING STRATEGIC DECISION-MAKING PROCESS FOR THE OIL/GAS INDUSTRIES OF UAE- A STUDY**

The study has thus inferred that the process of strategic decision-making is the most important and complex of all the organisational processes or functions, especially with respect to the oil and gas industries of the UAE. The study also emphasised that the top management must have a complete and profound understanding of the process of decision-making in order to practice it effectively.

The common factors that were observed to influence the strategic decision-making process in UAE Oil and Gas industries are

1	Availability of resources
2	Availability of man power
3	Best time for new operations
4	Availability of revenues,
5	Effectiveness of the managers
6	Threat or crisis or Opportunities,
7	Organisational Structure
8	Organisational Culture
9	Leadership Style
10	Organisation Size
11	Performance
12	Slack and Power
13	Education
14	Experience and the age of the top managers,
15	Growing political interference,
16	Encroachment of bureaucracy,
17	Management competence problems
18	Lack of technical skills,
19	Inherent commodity risks and contract disputes
20	Human resource and Technology

Thus, it can be concluded that, by following an effective strategic decision-making process, considering all the internal and external factors and by adopting effective strategies could significantly enhance the functioning of the UAE Oil and Gas industries. The changes in the organisational structure and culture as adopted by the oil and gas companies in UAE are bound to facilitate and improve the strategic decision-making process in these companies. In addition, the human resource

managers as well as those responsible for integrating technological adoption in these companies understand and recognize the importance of strategic decision making in the organisation

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